



State of New Mexico
Educational Retirement Board

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MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD OF TRUSTEES
REGULAR MEETING
December 9, 2022

1. a. ROLL CALL: QUORUM PRESENT

A Regular Meeting of the New Mexico Educational Retirement Board was called to order on this date at 9:00 a.m. at the Albuquerque Public Schools Headquarters, 6400 Uptown Boulevard, N.E., Albuquerque, New Mexico. A quorum was established following roll call.

Members Present:

Mr. H. Russell Goff, Chair
Ms. Mary Lou Cameron, Vice Chair
Mr. Larry Magid, Secretary
The Hon. Tim Eichenberg, New Mexico State Treasurer
Mr. Max Baca
Dr. Donald W. Duszynski
Dr. Matías Fontenla
Mr. Mario Suazo

Members Excused:

Mr. Antonio Ortiz

Staff Present:

Mr. David Archuleta, Executive Director
Mr. Rick Scroggins, Assistant Director
Mr. Lawrence Esquibel, Deputy Director
Mr. Bob Jacksha, Chief Investment Officer
Ms. Destiny Martinez, Executive Assistant
Ms. Melinda Garcia, HR Director
Ms. Jenna Vigil, Benefit Services Bureau Chief
Ms. Susanne Roubidoux, General Counsel

Others Present:

Mr. Allan Martin, Investment Advisor, NEPC [on phone]
Mr. Robert Goldthorpe [on phone]
Mr. Ryan Falls, Actuary, GRS
Ms. Judith Beatty, Board Recorder

b. Approval of Agenda

Dr. Fontenla moved approval of the agenda, as published. Mr. Baca seconded the motion, which passed unanimously.

c. Approval of Minutes: October 14, 2022

Ms. Cameron moved approval of the minutes of the October 14, 2022. Mr. Baca seconded the motion, which passed unanimously.

d. Introduction of Guests

Chairman Goff welcomed guests and staff.

2. CONSENT AGENDA: BOARD TRAVEL

Chairman Goff, Ms. Cameron and Mr. Magid requested approval to attend the NEPC conference in Tempe AZ on January 31-February 1.

Dr. Duszynski requested approval to attend the Pension Bridge Annual Conference on April 17-19 in San Francisco.

Mr. Magid moved for approval. Treasurer Eichenberg seconded the motion, which passed unanimously.

3. OPEN MEETINGS ACT RESOLUTION FOR 2023: SUSANNE ROUBIDOUX, GENERAL COUNSEL

Ms. Roubidoux reviewed the resolution. There were no major changes from last year.

Ms. Cameron moved for approval. Mr. Baca seconded the motion, which passed unanimously.

4. AUDIT COMMITTEE (AC) REPORT: MARY LOU CAMERON, VICE CHAIR

a. AC Committee Meeting – November 21, 2022

Ms. Cameron presented the following report:

“The New Mexico ERB Audit Committee met virtually on Monday, November 21, 2022. Items on the agenda included an exit Conference for the 2022 Fiscal Year Annual Financial Audit and presentation and discussion of Internal Audit topics. Kory Hogan and Aaron Hamilton of Moss Adams reported on the Financial Audit, and Jessica Bundy and Caitlin Gutierrez from REDW presented the Internal Audit items.

“The financial audit, which began in June, recognized that the ERB had no material weaknesses or significant deficiencies, no other control deficiencies and no compliance findings noted. Audit areas of emphasis were internal controls, as well as analytical and substantive procedures with attention given to alternative investment testing. Mentioned was the significant new accounting pronouncement for fiscal year 2022: GASB No. 87, *Leases*. The current year impact is summarized in Notes 2 and 9 of the audit report. The financial statements for NMERB were submitted to the Office of the State Auditor on November 22, 2022 and the agency is waiting for their acceptance so the report can be presented to the Board and published on the NMERB website.

“The internal audit presentation included information regarding the FY22 Follow up Internal Audit, the FY23 Audit Plan, and the results of the IT Helpdesk Audit. The Follow Up identifies open audit observations from prior audits with updates on resolution or progress made in those areas. The audit plan for FY23 includes Key Controls and Operations, Governance and Reporting, Member Engagement and Satisfaction, Accounting and Operations, and the usual Follow Up on Outstanding Observations. The final item was the presentation on the Information Technology Help Desk audit, which focused on how NMERB identifies, tracks, and resolves technology issues. No significant issues were identified, but improvement suggestions were made regarding training, monitoring and metrics, and customer satisfaction surveys.”

**5. ALTERNATIVE RETIREMENT PLAN (ARP) COMMITTEE REPORT:
LARRY MAGID**

a. ARP Committee Meeting – December 8, 2022

Mr. Magid reported that the ARP Committee reviewed the balances in the revenue credit accounts at TIAA and Fidelity and anticipated annual plan administration expenses. The RCA is a plan-level account funded from administration fees collected from participants' accounts and its assets are used to pay applicable plan expenses, with the amounts not used reimbursed

to the participants typically on an annual basis. The committee approved CAPTRUST's recommendation to reimburse the respective participants as follows in the form of an account credit calculated and deposited to participant accounts prorata (i.e., proportionate to their program balance when compared to total program assets): TIAA participants \$35,000 and Fidelity participants \$10,000.

Mr. Magid said the committee also reviewed the ARP Committee Charter and Investment Policy with no recommended changes. It also approved CAPTRUST's recommendations of the investments watchlist as follows: Oakmark International Institutional, retain on watch; T. Rowe Price Blue Chip Growth I, retain on watch; and DFA Emerging Markets, retain on watch. The committee also approved CAPTRUST's recommendations to remove Fidelity High Income (SPHIX) from the program's investment menu and replace it with MainStay MacKay High Yield Corporate Bond R6. The next meeting was scheduled for June 15, 2023.

6. JUNE 30, 2022, ACTUARIAL VALUATION REPORT: RYAN FALLS AND DANA WOOLFREY, GABRIEL ROEDER SMITH & COMPANY

Mr. Falls presented the June 30 Actuarial Valuation Results.

Ms. Cameron moved to accept the report, as presented. Dr. Duszynski seconded the motion, which passed unanimously.

7. INVESTMENT REPORTS: BOB JACKSHA, CIO

Chairman Goff congratulated Mr. Jacksha on receiving the *CIO* magazine's Industry Innovation Award.

a. Asset Liability Discussion

NEPC Investment Director Rob Goldthorpe reviewed NEPC's Asset-Liability Study. Considerations in looking at potential new mixes included the following highlights:

- Incremental increases in the employer contribution rate in 2022, 2023 and 2024.
- Projected funded status increased from 63% to 64%; average 10-year cash flow projection decreased from 4.1% to 3.8% as of June 2022.
- Challenging investment environment: FYTD investment returns: -2.9%; higher inflation; challenging market conditions; tightening monetary policy; historically low interest rates.

- To achieve full funding, the NMERB should focus on a well-diversified long-term approach.

Mr. Martin stressed that NEPC and staff worked together to look at several mixes that were developed using investment judgment and with a consistent process that would meet all judiciary standards.

Mr. Martin reviewed an alternative asset allocation chart (current policy, Mix A, Mix B, Mix C, and Mix D). Mix C reduces Total Equity from 46% to 45%; increases Total Fixed Income from 31% to 32%; increases Real Assets from 17% to 20%; and reduces Total Multi Assets from 5% to 2%. This mix produces an expected return in 10 years of 6.5% and an expected return in 30 years of 7.8%, and has better defensive qualities than the current mix.

b. Investment Policy Statement Revisions

Mr. Jacksha referred to a redline copy of the Investment Policy Statement, with changes that included amendments to the Asset Allocation table. At its December 2, 2022, meeting, the Investment Committee recommended that the board approve the changes to the Investment Policy Statement, with Mix C. Mr. Jacksha reviewed the other changes to the Investment Policy Statement, which consisted of minor language changes and cleanup language.

Ms. Cameron moved for approval of the changes to the Investment Policy Statement as presented to the board by NMERB staff. Mr. Magid seconded the motion, which passed unanimously.

c. Quarterly Performance Review

[Presenter: Allan Martin, NEPC]

Mr. Martin presented the Q3 report, with the following highlights:

- Over the past 5 years, the fund returned 7.1 percent per annum.
- Over the past 3 years, the fund returned 7.3 percent per annum.
- For the year ending September 30, 2022, the fund experienced a net investment loss of \$614.6 million, which includes a net investment loss of \$447.5 million during the quarter. Assets decreased from \$16 billion 12 months ago to \$14.9 billion on September 30, 2022, with \$499.1 million in net distributions during the year. The fund returned -4.1 percent, outperforming the policy index by 2.7 percent and ranking in the 2nd percentile of its peers.

d. Staff Selection Committee Report

Mr. Jacksha reported that the Staff Selection Committee acted on one item at the October 25, 2022, meeting.

- Approved a \$100 million commitment to PIMCO Corporate Opportunities Fund IV for the Opportunistic Credit portfolio. The NMERB was in a previous fund, which did well. Fund IV invests in corporate securities across the capital structure.

Mr. Magid pointed out that the NMERB has a lot more business for the staff selection to focus on when the markets are moving rapidly in a positive way.

Mr. Jacksha agreed and added that the NMERB is currently seeing more cash flows on private assets with more capital calls than redemptions because the prices on private assets are depressed right now.

e. Investment Committee Report

Mr. Jacksha reported that, in addition to reviewing the Asset Allocation and Investment Policy, the committee accepted the Proxy Report and reviewed the Quarterly Infrastructure Report and Q3 Commission Report. Staff also reported on derivative usage, which was well within policy.

f. Other Investment Reports

None.

8. RETIREMENTS: JENNA VIGIL, MEMBER SERVICES BUREAU CHIEF

a. Disability Retirements

Ms. Vigil reported that 2 disability cases were reviewed in October, with a total of 45 cases for the calendar year.

Mr. Magid moved to accept the Disability Retirements report. Dr. Fontenla seconded the motion, which passed unanimously.

b. Age & Service

Ms. Vigil reported that for the October-November period, there were 4 retirement applications for members under age 60, 17 reciprocity applications and 192 normal retirement applications, for a total of 213 applications processed during the bimonthly period.

Mr. Magid moved to approve the Age & Service Retirement report. Mr. Baca seconded the motion, which passed unanimously.

9. DIRECTOR'S REPORTS: DAVID ARCHULETA, EXECUTIVE DIRECTOR

a. Agency Activities

Mr. Archuleta presented highlights from the NMERB Departmental Activity Report.

Mr. Archuleta said some people are receiving calls about violations associated with Return to Work policies. The Payroll Department has reported an unusually high number of violations. Some people are going back to work without submitting an application, and the NMERB is finding out about it after the fact, and then the pension benefit monies have to be paid back to the program. To address this situation, NMERB is reaching out to those groups that are in violation to address training issues they might have. The NMERB is also talking to the Superintendents Association about messaging through the superintendents themselves, and the Public Education Department has offered to put a message on their weekly news blast.

Mr. Archuleta reported that, in November, the interim Investments and Pensions Oversight Committee endorsed the proposed legislation, and earlier this week the NMERB made a presentation before the LESC that included a review of the agency's solvency and proposed legislation.

b. Building Project Update

Mr. Archuleta said the NMERB expects to receive all final documents associated with the design and development of this complex by the close of business today.

c. New Mexico Retiree Health Care Authority Update

Mr. Archuleta reported that the NMRHCA's funded status has risen from 25 percent to 33 percent this year.

d. Other

Mr. Archuleta stated that, as the NMERB prepares to build the new office complex, it will have to deal with the matter of the existing office complex. In May 2021, the appraisal value was established at \$2.2 million, a decrease from a \$2.8 million appraisal done in 2007, which was based on the sale of the building directly behind it to the General Services Department, and which

now houses the Environment Department. He said the General Services Division Facilities Management Division would like to seek an appropriation during this legislative session or the next legislative session to purchase the property. He has also reached out to Landseer Management to determine whether the NMERB could receive a premium on top of the appraised value. It is possible that the Board of Finance will do the final review and approval of this property transaction.

e. Board Self-Assessment Results

Mr. Archuleta said he hoped to see higher scores at this time next year on issues such as board training, engagement and knowledge about policies and procedures. One issue of concern, which was raised by Dr. Duszynski at the August board meeting, was that the organization he represents, which is cited as the New Mexico Association of University Professors, does not exist. The language is specific about that organization in the statute, and changing the language presents a challenge.

f. Strategic Plan

The Strategic Plan, approved by the board at the August meeting, was in the board book for review.

Chairman Goff and board members thanked Treasurer Eichenberg for his years of service to the board.

10. EXECUTIVE SESSION: 11:20 a.m.

Chairman Goff moved that the board go into executive session for the following purpose:

a) Threatened or pending litigation in which NMERB is a participant. Session closed per NMSA 1978, § 10-15-1(H)(7). Update regarding:

i) *NMERB v. Debbie Romero and Dept. of Finance and Administration*, Case No. A-1-CA-40106 (New Mexico Court of Appeals); and

ii) *Jan H. C. Goodwin v. Governor Lujan Grisham et al.*, Case No. 1:21-cv-00483-JHR-KK (U.S. District Court, New Mexico)

Ms. Cameron seconded the motion, which passed unanimously by roll call vote:

For: Chairman Goff; Ms. Cameron; Mr. Magid; Treasurer Eichenberg; Mr. Baca; Dr. Duszynski; Dr. Fontenla; Mr. Suazo.

[The board came out of executive session at 10:40 a.m.]

11. ACTION FROM EXECUTIVE SESSION: 11:40 a.m.

Chairman Goff moved that the board come out of executive session. The only matters discussed during executive session were:

- a) *Threatened or pending litigation in which NMERB is or may become a participant, specifically (i) NMERB v. Debbie Romero/ DFA; and (ii) Jan Goodwin v. Governor Lujan Grisham et al.***

Dr. Duszynski seconded the motion, which passed unanimously by roll call vote:

For: Chairman Goff; Ms. Cameron; Mr. Magid; Mr. Baca; Dr. Duszynski; Dr. Fontenla; Mr. Suazo.

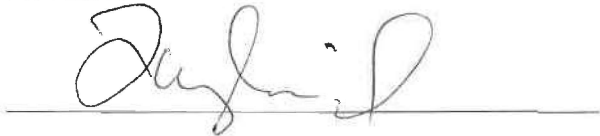
12. NEXT MEETING: FRIDAY, FEBRUARY 17, 2023 – SANTA FE

13. ADJOURN: 11:40 a.m.



Russell Goff, Chairman

ATTEST:



Larry Magid, Secretary